TRANSFORMING AFRICA:
Strong collaboration, smart policy, sound investments and a total change of mind-set

The timing is right: Africa holds enormous potential for rapid transformation. A continent in transition, it is among the world’s fastest growing regions, with a young and growing population in rapidly expanding cities, an improving business environment, expanding Internet connectivity, rising incomes, and shifting consumption patterns.

Despite economic and political challenges, these enduring trends have created an abundance of commercial opportunities across the continent, transforming it into a market and opportunity that investors cannot afford to ignore. In particular, public-private partnerships (PPPs) are seen as key towards transforming the African economy and eradicating poverty.

However, investor activity on the continent has long been constrained by structural obstacles, a lack of risk mitigation mechanisms, and few financing options, all of which inhibit the effective distribution and mitigation of risk associated with large-scale or long-term projects.

But Africa does not give up. Its growing youth are working hard to do things differently, becoming more and more entrepreneurial even as older generation entrepreneurs and politicians have realised that without collaboration, nothing substantial can be achieved.

"The most important transformation is the transformation of our mindset," said Ghana’s Vice President Mahamudu Bawumia at the recent African Transformation Forum (ATF2018), held in Accra and hosted by the African Center for Economic Transformation (ACET), a leading Pan-African economic policy institute, based in Accra in collaboration with the Government of Ghana. "We can do what other countries and continents have done. It is not rocket science; it is not impossible. We must have a mindset of making things possible, not one of thinking that major achievements are impossible."
Africa does not give up... the CFTA is proof

Africa’s problems, according to many analysts, is simply the inability to work together for a common good. For example, for decades, West African nations have been working to attain a common currency but that is yet to materialise. Politicians have promised collaboration but consistently failed to deliver expected results, leading to the unfortunate conclusion that as long as the continent does not work together, significant changes will remain elusive.

The Continental Free Trade Area agreement (CFTA) is an opportunity to change the narrative. Broketed by the African Union (AU) and initially signed by 44 of its 55 member states in Kigali, Rwanda on March 21, the CFTA marks Africa’s biggest attempt yet to work together to drive development through improved trade and investment.

The agreement initially requires members to remove tariffs from 90 percent of goods, allowing free access to commodities, goods, and services across the continent. If ratified, the agreement would result in the largest free-trade area in terms of participating countries since the formation of the World Trade Organization.

The United Nations Economic Commission for Africa estimates that the agreement will boost intra-African trade by 52 percent by 2022. The proposal will come into force after ratification by 22 of the signatory states.

Africa’s 11.3 percent intra-regional trade represents the smallest share compared to other continents of the world. Europe’s intra-regional trade stands at 70 percent, just like Asia’s. In North America the figure is 40 percent.

Africa’s sub-regions have the worst indicators than the rest of the world in terms of cost of trade. In ECOWAS and SADC, businessmen need 7.6 and 7.3 documents to export respectively whereas in the EU one needs just 4.5. While you need 11.5 days to export in the EU, you need 27.6 and 31.2 days to export in ECOWAS and SADC respectively. The same situation applies to imports.

Paul Kagame, President of Rwanda and Chairman of the African Union, speaking recently at ATF2018, noted that Africa is experiencing greatly accelerated progress toward the economic unification of the continent with the signing of the agreement. In this year alone, the African Union has adopted the free movement protocol and inaugurated a single African air transport market, which will reduce not only ticket prices but also the need for stopovers on other continents.

"Joining up diffuse, fragmented markets would be a leap forward. Doing this across borders will require governments to work closely with each other, and with the private sector. By creating a highly networked, frictionless marketplace, we will encourage the best products, services and ideas to rise to the top. This will boost the economy as a whole and open up opportunities for women, rural populations and other marginalised groups," he said.

Private sectors are working closely together.

The business community should also contribute to holding governments accountable for putting what has been agreed into action, and pushing all of us to do more, and better," President Kagame said during ATF 2018. He was participating in the forum’s closing plenary, a frank dialogue between African Heads of State and business leaders.

Citing Africa’s vast transportation and logistical challenges, President Kagame said much more investment in big, joint regional infrastructure. including digital networks, is required. "Globally, there is no shortage of finance, both public and private. We can attract more of it to Africa, and help close the investment gap, by planning big projects of sufficient size to interest major funds—and enhance the business case." This kind of activity, President Kagame emphasized, also makes regional integration "tangible and irreversible."

But, he warned. African governments need to match external capital with national capital. "This can help reduce risk perceptions and ensure we share the upside of profitable deals," he said, adding that African savings are not being mobilised effectively—an impediment to national capital investments that must be addressed.

To President Kagame, the biggest threats on the continent are also opportunities. With 450 million Africans expected to join the working age population by 2035—more than the rest of the world combined in that time—Africa’s population surge can power economies forward, as long as the growing labor force has the knowledge to perform available jobs. But his worry is about schools and universities not keeping the pace with technology. "Over half of all jobseekers have few or no skills, while 41 percent have qualifications but no skills for the jobs available," he said. "The gap is wider still in science, technology, engineering and mathematics."

He opined that prosperity rests on good politics and a secure environment, because...
the transformation agenda requires a broad consensus that is sustained across decades. "Transformation requires leadership and accountability at every level, beginning at the top, but not stopping there."

A need for banks to aid in development

Countries that are now developed economies have been strategic in their development process. In finance and banking, for example, developed economies incentivised banks to support risky but job creating and sustainable sectors of the economy. This led to banks becoming the agents of growth for decades and, in some cases, over a century.

At independence, Dr. Kwame Nkrumah, the first president of Ghana, established banks for specific purposes to aid economic development. For years after he left, these banks continued in that trajectory, from agriculture, housing, commerce, investment, and industry, until the turn of the new millennium when all banks became universal banks, which made them pursue profits to the detriment of economic transformation.

Due to the influence of development partners such as the International Monetary Fund (IMF), World Bank, and Western countries, Africa’s developing economies have allowed the banks to engage in ways they see fit without strategic guidance.

Ghana’s President Nana Addo Dankwa Akuffo-Addo holds a different view. Speaking at the same Heads of State panel discussion at ATF2018, he expressed dissatisfaction with indigenous and foreign banks in Ghana that make profits and shy away from financing relatively risky ventures that can help transform the country’s economy.

"In our own country, the banks have, in the last 20 or 30 years, been very content to make lots of money and not particularly involved in the risk-taking that contributes to economic development and transformation," he stated. President Akuffo-Addo indicated that one of the major constraints to the transformation agenda of the country is access to capital and the cost.

"The foreign-owned banks are the main players in our economy and they have their own goals, which are not necessarily about the development of the country but about the profits that they make. I don’t have any difficulties with people wanting to make money, but I do have a problem with making money in an environment whereby it is not making a significant contribution to the transformation of the economy," he said.

President Akuffo-Addo further observed that the structure of Ghana’s financial and banking sector has perhaps contributed to the lack of desire on the banks to take all the needed investment and financing risk. He added that be where it is presently. Fortunately, he said, African leaders are now taking seriously the role that governments need to play in the process of transformation by building strong economies based on sound macro-economics, educational reforms, and skills acquisition. The President told the forum that his government had placed a priority on "sanitizing the macro-economy" leading to a significant reduction in inflation, interest rates, deficits, and national debt.

"With the management of the national economy, a significant progress has been made in laying the foundation for an attractive investment destination for Ghana," he said.

To give or not to give: the tax holiday conundrum

Every businessman or CEO will accept a tax holiday. After all, business owners are constantly on the lookout for possible loopholes in tax codes and laws to avoid payment or reduce it to the barest minimum, especially on a continent where corruption is rife and government officials are notorious for looting the coffers of the state.

In Ghana, tax exemptions granted in 2013 amounted to GH¢2.9 billion; GH¢3.2 billion in 2014; GH¢4.5 billion in 2015; and GH¢4.8 billion in 2016, according to data from the Ghana Revenue Authority and GCNet.

According to a 2015 report authored by ActionAid International and Tax Justice Network Africa, "The West African Giveaway: Use and Abuse of Corporate ‘Tax Incentives in ECOWAS’, these incentives are mainly granted to foreign companies and cost the economy about US$2.27 billion every year.

Even though government in April 2017 introduced a policy that forced companies to pay duties and later apply for refunds on exemptions, pressure from business groups, especially importers, forced the government into a U-turn five months later.

Despite the availability of such alarming data, business leaders continue to push for
favourable incentives. Aliko Dangote, one of Africa’s most celebrated and successful entrepreneurs, urged governments to use incentives to attract businesses that have the capacity to employ in large numbers and guarantee the sustainability of those jobs. When tax rates are too high, he cautioned, is when people look for avenues to evade tax payments. “The less you charge, the more you can widen the net and collect a lot of taxes from a lot of people,” he said.

He gave an example of the taxes his sugar factory paid to the Nigerian government after the expiration of tax breaks in 2006. Between 2007 and 2017, he said the business paid about US$2.7 billion in taxes.

According to Mr. Dangote, his company, the Dangote Group, paid about US$277.7 million in taxes last year alone. He said tax holidays gave his companies a lot of room to accumulate cash to reinvest—and benefit people through expansion and new job growth.

Despite his advocacy for tax holidays, Mr. Dangote stated that one of the major factors he considers before investing in any country is the quality and integrity of leadership.

“The first thing I will look at is the president. Is he a man of his word? The two main reasons [African businesses] go bankrupt: when they try to go into industry are lack of power and inconsistency in government policy,” he said.

About the ATF2018 and outcomes

The two-day forum offered an opportunity for the private sector and other non-state actors to engage on ways to help shape the course of economic transformation in Africa. The event brought together more than 300 active participants—high-level government officials, CEOs, as well as other leaders from the private sector—to discuss solutions and make commitments towards accelerating job growth, boosting investment, and implementing transformation policies.

Tito Mboweni, a highly respected international banker and economist who also chairs the ACET Board of Directors, opened the forum with a strong call to action for Africa’s political leaders to work together with all stakeholders to keep Africa’s development on track and in African hands.

“I hope you hear us loud and clear,” he said. “We want to collaborate with you moving forward. Help us fight corruption. Help us fight the ‘big man syndrome’. Help us ensure that resources mobilized for Africa’s development go into Africa’s development.”

Mboweni’s strong words echoed the theme of ATF2018: a dialogue for action. In keeping with this central objective, the first day consisted of five concurrent working sessions centered around the Pan-African Coalition for Transformation (PACT), which was established after the previous forum in 2016, as a mechanism to foster peer learning and collaboration on transformation challenges and solutions. Ministers who participated in the discussions shared the action plans and other ideas generated from these working sessions with the full Forum on the second day.

Dr. K.Y. Amoako, the President and Founder of ACET, ended the forum by announcing a few outcomes, including a more collaborative approach to enhance the contribution of Africa’s think tanks and the formation of the new African Transformation Leadership Panel to be chaired by Liberia’s former president, Ellen Johnson Sirleaf. The Panel will be formed over the coming months, he said, and it will comprise eminent men and women—proven experts and leaders—who will help promote important transformation policies at the highest levels.

“It’s clear that we all have much work to do between now and the next African Transformation Forum,” Dr. Amoako said. “But I think we also know how to move forward so that we are able to get where we want faster, and with lasting results.”